

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL TWELVE)

Docket No. RM2016-3

**RESPONSE OF THE UNITED STATES POSTAL SERVICE
TO COMMISSION ORDER NO. 2915**
(February 29, 2016)

On December 22, 2015, the Commission issued Order No. 2915 in this proceeding. Among other things, that Order directed the Postal Service to file a report addressing certain matters by February 29, 2016. The requested report is provided below.

Introduction

In Order No. 2915, the Commission approved the new treatment of city carrier letter route and non-Sunday Special Purpose Route (SPR) costs associated with vehicles (labor, parts, and depreciation).¹ The Commission justified approval of the new treatment of vehicle costs because it “improves the quality of the Postal Service’s analysis by aligning the approach to calculate vehicle costs contained in the CRA report with the methodology approved by the Commission in Proposal Thirteen.”^{2 3} Also as part of Order No. 2915, the Commission directed the Postal Service to file a report

¹ In delivery operations, the term Special Purpose Route is not meaningful. Rather, these costs are classified as LDC 23 (Parcel or Combination Route) or LDC 27 (Collection route) costs.

² See Docket No. RM2016-3, Proposal Twelve, Order No. 2915, at 8 (December 22, 2015).

³ Proposal Thirteen introduced an update to the city carrier letter route street time model. See Docket No. RM2015-7, Proposal Thirteen (December 11, 2014).

addressing how new studies involving direct labor costs associated with city carrier Special Purpose Routes “SPR” or Sunday routes would affect Proposal Twelve.^{4 5 6}

City carriers on non-Sunday SPR perform two primary activities: 1) deliver parcels and accountable mail and 2) collect mail from street letter boxes and other mail collection points. As a result, SPR costs are naturally divided into two categories identified by separate Labor Distribution Codes, LDC 23 and LDC 27.

LDC 23 includes hours incurred on parcel and combination routes. Parcel routes are designed primarily for the delivery of parcels and accountable mail and are often used to support pure foot letter routes. Consequently, substantial parcel route costs are found in major metropolitan cities such as Boston or New York. Carriers on combination routes perform a variety of activities, including delivering parcels and accountable mail, servicing relay boxes, making runs to and from the airport, and collecting mail from street letter boxes. Hours in LDC 27 are almost exclusively reserved for carrier time spent on collection routes, which includes collecting mail from street letter boxes and from customers with large amounts of collection mail. The Time Attendance Collection System (TACS) can be used to form separate cost pools for LDC 23 and LDC 27.

⁴ See Docket No. RM2016-3, Proposal Twelve, Order No. 2915, at 9-10 (December 22, 2015).

⁵ Proposal Twelve dealt with the treatment of city carrier letter route and non-Sunday SPR vehicle costs. It did not impact the treatment of city carrier SPR Sunday vehicle costs. Vehicle costs associated with SPR Sunday costs are filed under seal in the ACR in USPS-FY15-NP27.

⁶ Although the Commission did not explicitly ask for a discussion of the implications of a change in the letter route street time model, a change in that model would have similar impact on the attribution and distribution of carrier vehicle costs associated with letter routes. For example, if a single-equation street time model were to be successfully estimated, any resulting changes in the cost pools and variabilities would also be reflected in the attribution and distribution of the associated vehicle costs.

This report is organized into two parts. Part I discusses the relevant parts of Proposal Twelve and the current treatment of vehicle costs associated with letter routes and non-Sunday SPR activities, and Part II examines the potential impact that new studies of non-Sunday SPR and Sunday SPR costs could have on the treatment of city carrier vehicle costs.

I. Proposal Twelve

The Postal Service treatment of city carrier vehicle costs is based on a causal relationship between city carrier direct labor costs and the associated vehicle maintenance and depreciation costs. This treatment is based upon the close relationship between city carriers and vehicles. As city carriers work more street hours, vehicle use hours and consequently vehicle costs also rise. Before Proposal Twelve, the most recent change in the treatment of city carrier vehicle costs occurred in Docket No. R2005-1 in conjunction with a concurrent update of the city carrier letter route street time model. To align the treatment of city carrier vehicle costs with corresponding labor costs, the Postal Service filed Proposal Twelve subsequent to the Commission approving the update of the city carrier letter route street time model in Proposal Thirteen.^{7 8}

Proposal Twelve primarily addressed the treatment of city carrier vehicle costs in cost sub-segments 12.1 (Motor Vehicle Service (MVS) Maintenance Labor), 12.2 (MVS Supplies and Materials), and cost segment 20.2 (Vehicle Depreciation). For letter routes and non-Sunday SPR activities, the associated vehicle costs are then attributed and

⁷ See Docket No. RM2015-7, Proposal Thirteen, Order No. 2792 (October 29, 2015).

⁸ See Docket No. RM2016-3, Proposal Twelve (November 20, 2015).

distributed to products using the same attribution level and distribution factors as their respective direct labor costs.

Proposal Twelve also dealt with the treatment of vehicle costs in sub-segments 12.3 (Vehicle Hire) and 13.2 (Carfare and Driveout), but since these costs do not involve SPR activities, they will not be addressed further in this report.

II. Potential Impact of New Studies of City Carrier Non-Sunday SPR and SPR Sunday Activities on the Treatment of Associated Vehicle Costs.

A new study of city carrier non-Sunday SPR activities would likely result in changes to the current cost pools and variabilities. These changes, in turn, would likely require associated changes in the methods used to attribute and distribute vehicle costs. Although the Postal Service does not currently know how non-Sunday SPR costing will change, a hypothetical change can be used to illustrate the relationship between changes in SPR labor costs and changes in vehicle costs.

For example, one hypothetical approach to attribution of the non-Sunday SPR activities would be to use separate top-down equations for LDC 23 and LDC 27. Under this hypothetical, combined vehicle maintenance and depreciation costs would first be disaggregated by LDC. Then each pool of vehicle costs would receive the same attribution level as their respective LDC. Finally, the distribution of costs to products would be done using factors estimated from the City Carrier Cost System (CCCS).⁹ It is important to reiterate that this is likely how non-Sunday SPR vehicle costs could be treated under one hypothetical update to the non-Sunday cost model. This hypothetical treatment does not precisely follow the methods from Proposal Twelve; however, it does

⁹ Under the hypothetical scenario, LDC 23 attributable costs would be distributed to products based on factors from CCCS-SPR and LDC 27 attributable costs would be distributed to products based on the relevant collection distribution factors from CCCS.

maintain its sound underpinnings that there is a strong causal relationship between direct labor costs and vehicle costs.¹⁰

Proposal Twelve did not impact the treatment of vehicle costs associated with SPR Sunday activities. However, in the event that an updated attribution method for SPR Sunday direct labor activities is proposed, it could also result in proposed changes to the methods used to attribute associated vehicle costs. The current cost model that attributes and distributes vehicle costs associated with SPR Sunday activities is filed under seal as part of the ACR in folder USPS-FY15-NP27.

The above constitutes the Postal Service's response to its reporting obligations that arose from Order No. 2915.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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¹⁰ The treatment described in the hypothetical differs from Proposal Twelve because it further disaggregates non-Sunday SPR costs into two pools before applying the appropriate direct labor attribution and distribution factors. Proposal Twelve applies the direct labor attribution and distribution factors to the entire pool of SPR costs.